

BENZONIA PUBLIC LIBRARY

BENZIE COUNTY, MICHIGAN

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

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Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Benzonia Public Library	LOCAL AUDIT & FINANCE DIV.	County Benzle
Audit Date 6/30/04	Opinion Date 11/23/04	Date Accountant Report Submitted to State: 12/3/04		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☒ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

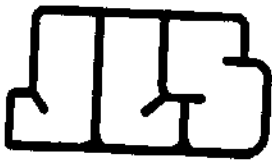
	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) J L Stephan Co PC			
Street Address 862 E 8th Street		City Traverse City	State MI
Accountant Signature <i>John P. Mome CPA</i>		ZIP 49686	Date 12/03/04

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FINANCIAL SECTION



J L Stephan Co PC

Certified Public Accountants

Jerry L. Stephan, CPA
John P. Morse, CPA

Marty Szasz, CPA
David Skibowski, Jr., CPA

INDEPENDENT AUDITOR'S REPORT

Benzonia Public Library
P.O. Box 445
Benzonia, MI 49616

We have audited the accompanying financial statements of the governmental activities of the Benzonia Public Library as of and for the year ended June 30, 2004 as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with accounting standards generally accepted in the United States of America. These standards require that we plan and perform the audit to provide reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the Benzonia Public Library prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis (MD&A) is a required element of the GASB 34 reporting format. The Library has elected not to include it as part the financial statements.

In our opinion, except for the exclusion of the MD&A discussed above, the financial statements referred to above present fairly, in all material respects, the financial position – modified cash basis of the governmental activities of the Library as of June 30, 2004 and the respective changes in financial position – modified cash basis, thereof for the year then ended in conformity with the basis of account described in Note 1.

As described in Note 1, the Library has implemented a new financial reporting model, as required by provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as of June 30, 2004.

The budgetary comparison information on page 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

J L Stephan Co PC

November 23, 2004

Benzonia Public Library
Governmental Funds Balance Sheet/Statement of Net Assets
Modified Cash Basis
June 30, 2004

	<i>General Fund</i>	<i>Adjustments</i>	<i>Statement of Net Assets</i>
Assets			
Cash in Bank	\$ 24,840	\$ -	\$ 24,840
Certificates of Deposit	167,752	-	167,752
Due from Village	-	-	-
General Fixed Assets	-	3,494	3,494
Total Assets	<u>\$ 192,592</u>	<u>\$ 3,494</u>	<u>\$ 196,086</u>
Liabilities			
<i>Liabilities</i>			
Accounts Payable	\$ -	\$ -	\$ -
Total Liabilities	-	-	-
Fund Balance/Net Assets			
Fund Balance- Unreserved	163,264	(163,264)	-
Reserved for Endowment	10,000	(10,000)	-
Reserved for Future Projects	17,000	(17,000)	-
Reserved for Special Projects	2,328	(2,328)	-
Total Fund Equity	<u>192,592</u>	<u>(192,592)</u>	<u>-</u>
Total Liabilities and Fund Equity	<u>\$ 192,592</u>		
Net Assets			
Invested in Capital Assets		3,494	3,494
Restricted		29,328	29,328
Unrestricted		163,264	163,264
Total Net Assets		<u>\$ 196,086</u>	<u>\$ 196,086</u>

See Accompanying Notes to Financial Statements

Benzonia Public Library
*Governmental Fund Statement of Revenues, Expenditures
and Changes in Fund Balance/Statement of Activities
Modified Cash Basis
For the Year Ended June 30, 2004*

	General Fund	Adjustments	Statement of Activities
<i>Revenues</i>			
State Aid	\$ 4,162		\$ 4,162
Penal Fines	31,890		31,890
Local Units			
Village of Benzonia	10,235		10,235
Townships	6,250		6,250
Book Fines	1,049		1,049
Copier	595		595
Gifts & Memorials	5,745		5,745
Contributions- Mills Community House	4,200		4,200
Interest Earned	4,725		4,725
Miscellaneous	812		812
<i>Total Revenue</i>	<u>69,663</u>	<u>-</u>	<u>69,663</u>
<i>Expenditures</i>			
Librarian Salary & Payroll Taxes	25,090		25,090
Books	10,524		10,524
Periodicals	1,432		1,432
Audio & Video Tapes	784		784
Supplies	928		928
Processing	11		11
Utilities	7,794		7,794
Postage	403		403
Workshops & Travel	112		112
Insurance	882		882
Dues & Miscellaneous	798		798
Mid MI Share State Aid	1,175		1,175
Shelves	298		298
Repairs/Maintenance	453		453
Computer Expense	946		946
Service Contract	540		540
Capital Outlay	-		-
Depreciation	-		-
<i>Total Expenditures</i>	<u>52,170</u>	<u>2,847</u>	<u>55,017</u>
<i>Excess Revenues Over (Under) Expenditures</i>	17,493	(2,847)	14,646
Fund Balance - Beginning of Year	<u>175,099</u>	<u>6,341</u>	<u>181,440</u>
Fund Balance - End of Year	<u>\$ 192,592</u>	<u>\$ 3,494</u>	<u>\$ 196,086</u>

See Accompanying Notes to Financial Statements

Benzonia Public Library
Notes to Financial Statements
June 30, 2004

Note 1 – Summary of Significant Accounting Policies

The financial statements of Benzonia Public Library have been prepared in conformity with the modified cash basis of accounting as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

Effective July 1, 2003, the Library adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in these statements include the following:

- Depreciation on capital assets of the Library.
- Financial statements using the modified cash basis of accounting for all the Library's activities as adjusted for capital assets and depreciation.

A. Reporting Entity

Benzonia Public Library is a public library located in the Village of Benzonia. Library operations are conducted in a building owned by Mills Community House, a non-profit organization whose committee is elected by the Benzonia Congregational Church. The State Library has determined that the Benzonia Public Library serves 2/3 of Benzonia Township, 50% of Homestead Township, and 100% of Joyfield Township. The library is governed by a volunteer library board whose members are elected to four year terms by Village of Benzonia voters.

The criteria established by Statement 14 of the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements are based primarily on the concept of financial accountability.

The library operates as an autonomous agency completely separate from the Village of Benzonia, the Mills Community House, and the Benzonia Congregational Church. On this basis, accordingly, the financial statements of the Library have not been included in the financial statements of any other organizations.

B. Basic Financial Statements – Fund Financial Statements

The fund financial statements report information on all of the non-fiduciary activities of the local unit. Each Fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures.

The local unit reports the following major governmental fund:

General Fund - This Fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from penal fines, state distributions, and contributions from other local governmental units.

C. Basis of Accounting

The Library maintains its accounting records using the modified cash basis method of accounting. Accordingly, certain revenues are recorded when received and certain expenditures are recorded when paid.

Benzonia Public Library
Notes to Financial Statements
June 30, 2004

Note 1 – Summary of Significant Accounting Policies – continued

D. Assets, Liabilities, and Net Assets or Equity

The following is a summary of the local unit's assets, liabilities, and net assets or equity:

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of 90 days or less.

Capital/Fixed Assets – Capital assets represent the fixed assets of the local unit utilized in its general operations (non-proprietary fixed assets).

Fixed assets are recorded at historical cost. Donated fixed assets are required to be valued at the fair market value as of the date received.

In accordance with GASB 34, depreciation has been provided on the fixed assets. Depreciation is computed over the estimated useful lives of the asset. Estimates useful lives are generally five years for furniture and equipment.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Stewardship, Compliance and Accountability

A. Budgets

The General Fund is under formal budgetary control. Budgets shown in the financial statements for these funds were prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consist only of those amounts contained in the formal budget approved and amended by the library.

In the body of the combined financial statements, the library's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a line-item basis. The budget resolution of the library did not specify the level adopted at, but is treated as being adopted at the line item level.

B. Budget Compliance

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall adopt an annual budget and not incur expenditures in excess of the amount appropriated. The library did not specify the expenditure level at which the budget was adopted. Accordingly, actual expenditures exceeded budgeted amounts for the following line items:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Books	\$ 8,600	\$ 10,524	\$ (1,924)
Periodicals	1,300	1,432	(132)
Postage	400	403	(3)
Insurance	750	882	(132)
Mid MI Share State Aid	1,000	1,175	(175)
Binding	-	298	(298)

Benzonia Public Library
Notes to Financial Statements
June 30, 2004

Note 2 – Stewardship, Compliance and Accountability - continued

C. Investment Policy

P.A. Act 196 of 1997 requires local units to adopt an investment policy and provide a copy of this policy to all financial institutions used by the unit. The Library Board has not adopted an investment policy.

Note 3 - Deposits with Financial Institutions

A. Legal or Contractual Provisions for Deposits and Investments

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by act No. 217, Public Acts of 1982 and Public Act 196 of 1997, states the library, by resolution, may authorize the Treasurer to invest surplus funds as follows:

- a. In bonds and other direct obligations of the United State or an agency or instrumentality of the United States.
- b. In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
- c. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase.
- d. In United States government or Federal agency obligation repurchase agreements.
- e. In banker's acceptances of United States banks.
- f. In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

B. Types of Deposits and Investments

The library maintains all its surplus funds with a local bank in the form of savings/checking accounts and certificates of deposit. Interpreting the FDIC insurance coverage of \$100,000 per deposit to apply to the total savings/time deposits separately from checking/demand deposits for purposes of applying the \$100,000 limit, the bank balances as of June 30, 2004 appear to be \$169,534 FDIC insured and \$23,058 uninsured for total deposits of \$192,592.

Note 4 - Changes in General Fixed Assets

	<i>Beginning Balance</i>	<i>Additions</i>	<i>Deletions</i>	<i>Ending Balance</i>
Equipment	\$ 31,965	\$ -	\$ -	\$ 31,965
Accumulated Depreciation	<u>25,624</u>	<u>2,847</u>	<u>-</u>	<u>28,471</u>
Total	<u>\$ 6,341</u>	<u>\$ 2,847</u>	<u>\$ -</u>	<u>\$ 3,494</u>

Benzonia Public Library
Notes to Financial Statements
June 30, 2004

Note 5 - Lease Agreement and Reimbursements

The library operates out of the Mills Community House who pays for the utilities, insurance and upkeep of the building and grounds. The Library board pays monthly rent to Mills Community House. The current monthly cost is \$600.

Note 6 - Salary Reimbursement

The librarian spends three quarters of her total time for the Library and one quarter as director of the Mills Community House. The Library Board is reimbursed the Community House monthly for an amount to cover a portion of the Librarian's pay. The Library Board is responsible for all payroll expenses and reporting. For the current year, the amount reimbursed by the Community House was \$350 per month totaling \$4,200 for the year.

Note 7 - Risk Management

The Library pays an annual premium to Auto Owners Insurance Company. The Library carries property damage coverage through them of \$34,900 subject to 80% coinsurance for personal property and \$50,000 for books. The Library also carries workers compensation and liability insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

SUPPLEMENTAL DATA SECTION

Benzonia Public Library
Governmental Fund Budget Statement
Modified Cash Basis
For the Year Ended June 30, 2004

	<i>Original Budget</i>	<i>Revised Budget</i>	<i>Actual</i>	<i>Favorable (Unfavorable)</i>
Revenues				
State Aid	\$ 2,000	\$ 2,000	\$ 4,162	\$ 2,162
Penal Fines	28,900	28,900	31,890	2,990
Local Units				
Village of Benzonia	10,000	10,000	10,235	235
Townships	4,500	4,500	6,250	1,750
Book Fines	800	800	1,049	249
Copier	350	350	595	245
Gifts & Memorials	-	-	5,745	5,745
Mills Community House	4,200	4,200	4,200	-
Interest Earned	3,100	3,100	4,725	1,625
Miscellaneous	-	-	812	812
Total Revenue	<u>53,850</u>	<u>53,850</u>	<u>69,663</u>	<u>15,813</u>
Expenditures				
Salary & Payroll Taxes	25,500	25,500	25,090	410
Books	8,600	8,600	10,524	(1,924)
Periodicals	1,300	1,300	1,432	(132)
Audio & Video Tapes	900	900	784	116
Supplies	1,200	1,200	928	272
Processing	100	100	11	89
Rent & Utilities	8,000	8,000	7,794	206
Postage	400	400	403	(3)
Workshops & Travel	300	300	112	188
Insurance	750	750	882	(132)
Dues & Miscellaneous	2,100	2,100	798	1,302
Mid MI Share State Aid	1,000	1,000	1,175	(175)
Binding	-	-	298	(298)
Repairs/Maintenance	1,800	1,800	453	1,347
Computer Expense	1,100	1,100	946	154
Service Contract	800	800	540	260
Capital Outlay	-	-	-	-
Total Expenditures	<u>53,850</u>	<u>53,850</u>	<u>52,170</u>	<u>1,680</u>
Excess Revenues Over (Under) Expenditures	<u>\$ -</u>	<u>\$ -</u>	17,493	<u>\$ 17,493</u>
Fund Balance - Beginning of Year			175,099	
Fund Balance - End of Year			<u>\$ 192,592</u>	

OTHER INFORMATION (UNAUDITED)

Benzonia Public Library

Comments and Recommendations

We have audited the financial statements of the Benzonia Public Library for the year ended June 30, 2004 and issued our report thereon dated November 23, 2004. As part of our audit, we studied and evaluated the library's internal control structure. Because the study and evaluation were only part of the overall audit plan regarding the financial statements, our study was more limited than would be necessary to express an opinion on the system of internal control taken as a whole. Accordingly, we do not express an opinion on the system of internal control of the library taken as a whole. As the result of our audit, we deem it necessary to make the following comments and recommendations.

Opening Comments

The records of the Library were maintained in good condition by your Librarian and Treasurer. We recognize that your Board and Treasurer are all volunteers and we commend them for their considerable efforts to manage the library and maintain the accounting system. As part of a continuing effort to enhance internal control and improve the accounting system, financial reporting, and overall management, we offer the following comments and recommendations for your consideration.

Reportable Conditions

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the library's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Segregation of Duties

The library Treasurer is currently responsible for making bank deposits, writing and signing checks, maintaining the accounting journals and ledgers, reconciling the bank accounts, and preparing monthly and annual operating reports. This lack of segregation of duties increases the potential for undetected errors or irregularities.

We understand small organizations have limited resources, but the board should consider that an optimal system of internal control attempts to segregate the financial functions and responsibilities to the extent possible. This is similar to the way in which most small Townships and Villages operate. The board should consider using two part duplicate receipts and checks and requiring two signatures on every check to improve record keeping and internal controls.

Cash Receipts & Disbursement Journals

The cash receipts and cash disbursements journals do not currently reflect year to date totals for each category. As a result the end of year operating report was out of balance by \$625. We strongly recommend that year to date amounts be kept for revenues and expenditures in the same way as was previously being done for expenditures. We continue to recommend the use of pre numbered duplicate receipts for all cash receipts with the check stub or warrant attached to the copy. We also recommend that copies be maintained of all bank deposit slips that contain deposit details.

Benzonia Public Library

Comments and Recommendations

We also noted other matters which we do not consider to be reportable conditions that we wish to bring to your attention.

Budgeting Procedures

Board minutes reflect approval of the annual budget. We recommend that the resolution adopting the budget indicate the level at which the budget is adopted. The board minutes did reference the total budgeted revenues and expenditures but did not match the budget work copy or have a copy of the official adopted budget attached. In addition, we noted several line items added to the Treasurer's financial report which were not budgeted for. This should be watched in the future.

Financial Reports

We noted that the Treasurer's financial report now includes accrued CD interest in current balances. The Treasurer's report now contains beginning & ending cash balances for all accounts. We continue to recommend that a reconciliation of the revenues and expenditures to the beginning and ending balances be added. We can the assist the Treasurer in implementing these enhancements if needed.

Investment Policy

P.A. Act 196 of 1997 requires local units to adopt an investment policy and provide a copy of this policy to all financial institutions used by the unit. An investment policy was not added by the Library Board. We strongly recommend that the Board adopt a formal investment policy as required by State law and provide a copy to the Library's banks. The County Treasurer has good examples of investment policies if needed.

Other Matters

The uniform chart of accounts mandated by the Michigan Department of Treasury is currently not in use. A standard chart of accounts should be established, and the same line item descriptions need to be used in the budget document, receipts and disbursements journals, monthly operating reports, and the year end financial report.

Many of these comments are repeat comments from the previous audit. We recommend that a committee be established to specifically address these comments and recommendations. This committee should advise the board of steps to be taken to correct many of these issues.

Closing Comments

We will be happy to discuss any of these recommendations with you and assist you in their implementation. As a matter of course, we will forward the required copies of these financial statements to the Michigan Department of Treasury. We further appreciate the courtesy extended our field auditors in the conduct of this audit engagement. Should any questions arise on these statements or the conduct of our audit, please call upon us.